

Johnson to Senate: credit unions are strong, well positioned

NCUA Chairman JoAnn Johnson testified June 5, 2008, on the state of the credit union industry before the Senate Banking Committee.

"Federally insured credit unions are financially strong. They have implemented NCUA guidance related to real estate and other lending and as a result are positioned to weather the current economic turbulence. While data show that the industry is not entirely insulated from the adverse impact of the mortgage situation, it also supports the conclusion that strong risk management and prudent standards, closely supervised by an engaged regulator, serve to ensure continued success," Chairman JoAnn Johnson said.

Key data supports this conclusion and underscores NCUA's belief that the industry has implemented regulatory guidance regarding the need for increased vigilance and more careful management of credit union balance sheets. Federally insured credit unions are well-capitalized.

Total assets are \$792 billion and aggregate net worth is \$87.7 billion, the highest dollar amount in history. Member loans represent over 67 percent of credit union assets and real estate loans comprise nearly 52.5 percent of total loans.

Senator Wayne Allard (R-CO) addressed a two-part question to Chairman Johnson during the hearing on lessons learned from the current mortgage/credit crisis and what

are NCUA's views on the Treasury Blueprint.

"Credit unions are limited by statute and regulation as to what they can invest in, and as such have avoided the riskier parts of the market that have caused other institutions problems. Regarding the Treasury Blueprint, separate and independent regulation for credit unions as distinct, cooperative financial institutions is necessary and justified, demonstrated by the current health of the credit union system," Chairman Johnson said.

Credit union mortgage lending is primarily traditional loans; nearly 60 percent of credit union mortgage loans are fixed rate. Only 2.4 percent are interest only or optional payment loans. Total loan delinquencies decreased slightly in the first quarter of 2008, from .93 percent to .91 percent, and real estate delinquencies now stand at .70 percent. Aggregate net charge offs for all loans increased from .50 percent to .67 percent, with real estate net charge offs currently at .19 percent.

"These relatively low numbers indicate that credit unions have positioned themselves to withstand the current economic uncertainty and related mortgage problems," Chairman Johnson said. "To



make certain that continues, NCUA has played a proactive, aggressive role in issuing supervisory guidance regarding lending."

Since 1995, NCUA has issued guidance on risk-based lending and specific mortgage lending guidance that has identified potential problem areas, particularly regarding Subprime lending, credit risk management, due diligence and stringent evaluation of third party relationships. Home Equity Lines of Credit (HELOCs) and so-called exotic mortgage products, such as "interest-only" and "payment optional," were also covered by this guidance. In concert with my fellow regulators, joint guidance regarding workout arrangements, Subprime lending and loss mitigation was issued.

"These were aimed at increasing credit union awareness of the potential pitfalls inherent in a rapidly changing and complex lending landscape. It is also a constant reminder to the industry of NCUA's vigilant posture when it comes to identifying and managing risk. While NCUA appreciates the desire of credit unions to serve their members as fully as possible, we recognize that there is no substitute for strong supervision that enhances safe and sound operations," Johnson said.

Chairman Johnson's testimony is available online at http://www.ncua.gov/news/speeches/speeches_johnson.html.

**PRESS TIME
UPDATE**

Fryzel Nomination Confirmed by U.S. Senate

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VC Hood attends HUD Secretary swearing-in

NCUA Vice Chairman Rodney E. Hood represented NCUA at the Department of Housing and Urban Development (HUD) June 6, 2008, as President George W. Bush praised new HUD Secretary Steven C. Preston and White House Chief of Staff Josh Bolten administered the oath of office.

Nominated by the President, Preston spent the past two years reforming and revitalizing the Small Business Administration (SBA)—a federal agency that faced numerous challenges in its ability to serve America's entrepreneurs and disaster victims. Earlier this year, SBA launched its Emerging 200 initiative to identify promising inner-city businesses and provide them with the training and resources needed to reach their full potential. Under the direction of Administrator Preston, SBA also established a pilot program with Operation HOPE, Inc. to provide training, counseling and business education in Harlem. Adding to Preston's list of achievements, as SBA Administrator he is recipient of the 2008 National Inner City Economic Award for dedication to promoting free, competitive enterprise, particularly in inner cities.

"HUD Secretary Preston will work to strengthen home ownership with the same

dedication he brought to his previous job of strengthening America's small business community. As head of SBA, Steve presided over loan guarantee programs that are similar in structure to those run by the Federal Housing Administration. And just as entrepreneurs across our nation found a trusted friend in Steve Preston, so will America's homeowners. He takes on this new challenge with my full confidence and trust," said President Bush.

Vice Chairman Hood noted the important role HUD plays in the credit union community and he recognized Preston's focus on initiatives aimed at meeting the affordable housing needs of underserved urban and rural markets—the cornerstone of the credit union community.

"Thanks to the focus and dedication of Secretary Preston, we now have more relevant products to support small businesses in underserved communities that will help these communities enjoy lasting, sustainable economic development," said Vice Chairman Hood. "Steven Preston has truly exhibited the credit union philosophy of people helping people, and NCUA looks forward to



June 6, 2008—Vice Chairman Hood (right) with HUD Secretary Preston.

continuing our strategic partnership with him at the Department of Housing and Urban Development for the benefit of America's credit union members in today's growing economy."

GC opinion letters

The NCUA Office of General Counsel issues opinion letters interpreting agency regulations and policies in response to questions submitted. Summaries of a few recent opinion letters follow. Secure these letters online at http://www.ncua.gov/RegulationsOpinionsLaws/opinion_letters/opinion_letters.html.

#08-0447—Allotment of space in federal buildings—The FCU Act authorizes a federal agency to allot building space to a credit union at no charge for rent or service if at least 95 percent of the credit union membership to be served actually use the allotted space.

#08-0543—Multiple names for credit unions—FCUs can operate branch offices under a different name than the name of the insured credit union if the FCU takes reasonable steps to ensure members are fully apprised of the use of different names. FCUs should ensure signage using a different name clearly reflects the branch is a division or branch of the credit union. Also, an FCU should obtain written permission from its sponsor before using the name or trademark of a sponsor.

News briefs

▶ **Insurance losses**—Reserves for potential NCUSIF losses increased by \$110.2 million during May. The amount was expensed to increase individual case and pool reserves.

▶ **Credit union failures**—Through May, four credit unions have been involuntarily liquidated this year. Related losses to the NCUSIF totaled \$8.0 million.

▶ **Insurance fund equity level**—The NCUSIF equity level decreased to 1.29 percent May 31, 2008. The equity level is based on December 31, 2007, insured shares of \$565.5 billion.

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures most credit unions.

JoAnn Johnson, *Chairman*
Rodney E. Hood, *Vice Chairman*
Christiane Gigi Hyland, *Board Member*

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Conversations with AMERICA



My Government Listens

Date: Wednesday, July 9, 2008
Who: Vice Chairman Rodney E. Hood
Event: NAFCU's 41st Annual Conference
Location: San Diego, CA
Contact: Sally Thompson at sridgely@ncua.gov

Date: Thursday, July 10, 2008
Who: Chairman JoAnn Johnson
Event: NAFCU's 41st Annual Conference
Location: San Diego, CA
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: July 11, 2008
Who: Board Member Gigi Hyland
Event: NAFCU's 41st Annual Conference
Location: San Diego, CA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Saturday, July 12, 2008
Who: Vice Chairman Rodney E. Hood
Event: WOCCU Regulators Roundtable
Location: Hong Kong
Contact: Sally Thompson at sridgely@ncua.gov

Date: July 31, 2008
Who: Board Member Gigi Hyland
Event: Louisiana Credit Union League Annual Convention
Location: New Orleans, LA
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Tuesday, August 5, 2008
Who: Vice Chairman Rodney E. Hood
Event: Illinois Credit Union League's Small Asset Size Conference
Location: Naperville, IL
Contact: Sally Thompson at sridgely@ncua.gov

Date: Thursday, August 7, 2008
Who: Vice Chairman Rodney E. Hood
Event: Vice Chairman Hood's 2008 Risk Mitigation Summit
Location: Chicago, IL
Contact: Sally Thompson at sridgely@ncua.gov

Date: August 18, 2008
Who: Board Member Gigi Hyland
Event: DCUC Annual Meeting
Location: Chicago, IL
Contact: Jessica Vogel at jvogel@ncua.gov or (703) 518-6318

Date: Thursday, August 21, 2008
Who: Chairman JoAnn Johnson
Event: NASCUS State System Summit
Location: Seattle, WA
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Date: Monday, August 25, 2008
Who: Chairman JoAnn Johnson
Event: Allied Solutions Networking Conference
Location: Beaver Creek, CO
Contact: Linda Queen at lqueen@ncua.gov or 703-518-6309

Board actions June 18, 2008

Member business loan ANPR issued

The NCUA Board issued an advance notice of proposed rulemaking on Part 723, Member Business Loans (MBL), to consider clarifying and revising rule provisions that include 1. loan-to-value ratio requirements; 2. collateral and security requirements; 3. credit union service organization involvement in the MBL process; 4. MBL loan participation; and 5. waivers.

Issued with a 60-day comment period, NCUA encourages comments on these and additional MBL rule revisions commenters wish to address.

Board votes are unanimous unless otherwise indicated



Asset liability management advice

Retain risk management core values

Credit risk, interest rate risk and liquidity risk are often the top three risks facing credit unions, with credit risk far and away the leading concern.

To mitigate credit risk, credit unions should stick with the three C's of credit underwriting—capacity to repay, character and collateral. Much of the current mortgage crisis can be attributed to borrower's inability to repay loans, mortgage originator's lack of character investigation, and originators overreliance on collateral value. Credit unions that stick with the three C's stand a better chance of managing the credit risk of mortgage lending.

Credit unions should avoid excessive interest rate risk. While it may be tempting to stretch for yield by extending mortgage product maturity in the current, relatively flat interest rate environment, news media reports the Federal Reserve is increasingly concerned about inflation may signal the Fed will soon act to raise interest rates.

Alternatives to increasing interest rate risk include controlling expenses and charging reasonable fees for service.

Consider imposing fees that at a minimum recover the cost of services provided, such as non-member use of ATMs.

Credit unions need to ensure contingent liquidity sources remain available. Anecdotal reports of credit line reductions and increased margin requests for mortgage collateral highlight the need to maintain good communications and working relationships with liquidity providers.

Expect lower returns on assets and work to manage credit risk, interest rate risk and liquidity risk while controlling expenses and increasing fee income. Prepare for the worst and expect the best.



NCUA helps kick off NeighborWorks® America Week

NCUA employees and family members joined NeighborWorks® America Saturday, June 7 to initiate the 25th Annual National NeighborWorks® Week by painting, planting and pulling weeds at local community projects.

More than 80 volunteers worked in the hot sun at a low-income apartment building and a youth and adult education center in Northeast and Southeast Washington, D.C., managed by NeighborWorks® network member Marshall Heights Community Development Organization.

“The credit union philosophy of ‘people helping people’ is a natural fit with the vital community focus of NeighborWorks® America,” said Board Member Gigi Hyland. Board Member Hyland is the NCUA Board representative for the NeighborWorks® America Board of Directors. “Credit unions work daily to improve the lives of the people and the communities they serve. It is an honor to join others, get dirt on our hands and paint on our clothes, in a community project yielding immediate results in the cooperative spirit of people helping people.”

The goal of all NeighborWorks® Week events and activities is to engage residents and businesses in efforts that transform their communities into better places to live, work and play. “NeighborWorks® Week events are varied, but they all focus on one common



*June 7, 2008, NE Washington, D.C.—
NCUA Board Member Gigi Hyland plants
flowers at the D.C. NeighborWorks®
America annual volunteer project.*

goal—improving communities and the lives of residents,” said NeighborWorks America CEO Ken Wade.

This year, NCUA joined forces with the Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC), Federal Reserve Board (Fed), MHCDO board and staff members, and local community residents to make the event a success. NCUA, OCC, FDIC, the

Fed, Office of Thrift Supervision, and HUD are the six federal agencies represented on the NeighborWorks® America Board of Directors.

The NCUA team included NCUA Board Member Gigi Hyland and husband, Chris Revere; Hyland Policy Advisor Gary Kohn and wife, Niki Kohn; and Public Affairs Specialist Cherie Umbel.

Sixty NeighborWorks organizations in more than 25 states took part in the 2008 NeighborWorks® project launching this annual week of community service. For more information about NeighborWorks® Week events visit <http://events.nw5.org/>.



Visit the NCUA website
<http://www.ncua.gov>
to access the latest
information directly
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NCUA News National Credit Union Administration

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